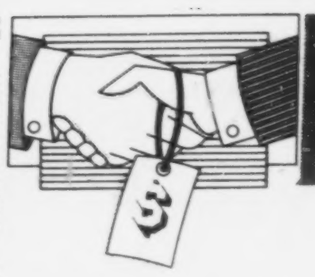

Summary of Loan Survey Findings

Compiled by **American Banker** Copyright 1985

Banks in Top 100 with Largest Gains in Business Lending

	(Dollar Amounts in Millions) Name of Bank	Business Loans 1984	1983	Percent Gain
1	Fidelity Bank NA	1,055.3	143.6	634.7
2	MBank Houston NA	1,094.7	328.4	233.4
3	Manufacturers Hanover Bank (Delaware)	1,038.5	389.7	166.5
4	Huntington National Bank	1,072.2	418.5	156.2
5	South Carolina National Bank	652.5	278.9	134.0
6	Florida National Bank	717.7	324.6	121.1
7	First Tennessee Bank NA	818.2	380.4	115.1
8	First Fidelity Bank NA	1,485.9	730.7	103.4
9	National City Bank	958.1	569.1	68.4
10	Manufacturers National Bank	1,272.6	792.9	60.5

Banks in Top 100 with Largest Declines in Business Lending

	(Dollar Amounts in Millions) Name of Bank	Business Loans 1984	1983	Percent Decline
1	BancOhio National Bank	899.6	1,447.5	37.9
2	Continental Illinois National Bank & Trust Co.	16,486.4	19,586.3	15.8
3	Crocker National Bank	4,953.1	5,376.2	7.9
4	InterFirst Bank Dallas NA	3,683.1	3,979.3	7.4
5	First City National Bank	3,377.2	3,625.0	6.8
6	Bank Leumi Trust Co.	1,224.3	1,307.8	6.4
7	Citibank NA	36,984.0	39,428.0	6.2
8	First National Bank of Chicago	9,684.0	10,226.6	5.3
9	Irving Trust Co.	3,822.3	4,010.4	4.7
10	Shawmut Bank of Boston NA	843.1	879.2	4.1

Banks in Top 100 with Largest 5-Year Growth in Business Loans

	Name of Bank	Business Loan Growth(%)	1984 C & I Rank
1	NCNB National Bank of Florida	712.0	90
2	Florida National Bank	364.8	92
3	Connecticut Bank & Trust Co. NA	255.8	48
4	Fidelity Bank NA	206.9	68
5	MBank Houston NA	96.7	62

Banks in Top 100 with Smallest 5-Year Growth in Business Loans

	Name of Bank	Business Loan Growth(%)	1984 C & I Rank
1	First Pennsylvania Bank NA	- 8.4	65
2	Centerre Bank NA	- 1.5	99
3	BancOhio National Bank	2.3	78
4	Citibank NA	2.6	1
5	Harris Trust & Savings Bank	3.6	41

Banks with the Largest Gross Returns on Domestically Booked C & I Loans

(For Banks Not Involved in Mergers)

	Name of Bank	Gross Return(%)	1984 C & I Rank
1	Chase Manhattan Bank NA	16.20	2
2	Bank of California NA	14.94	89
3	Manufacturers Hanover Trust Co.	14.41	4
4	Bank of New England NA	13.85	38
5	European American Bank	13.61	24

Banks with the Smallest Gross Returns on Domestically Booked C & I Loans

(For Banks Not Involved in Mergers)

	Name of Bank	Gross Return(%)	1984 C & I Rank
1	Riggs National Bank	7.82	97
2	Manufacturers Hanover Bank (Delaware)	8.12	69
3	Morgan Bank Delaware	8.52	50
4	Mellon Bank (East) NA	9.62	49
5	National Westminster Bank NA	9.77	26

Banks in Top 100 with the Largest Ratio of Business Lending to Total Lending

	Name of Bank	1984 Ratio (%)	1983 Ratio (%)
1	First Jersey National Bank	77.1	74.8
2	Bank Leumi Trust Co.	76.0	82.3
3	Morgan Bank Delaware	73.5	65.0
4	Bank of Tokyo Trust Co.	71.8	68.7
5	Manufacturers Hanover Bank (Delaware)	69.7	51.0

Banks in Top 100 with the Smallest Ratio of Business Lending to Total Lending

	Name of Bank	1984 Ratio (%)	1983 Ratio (%)
1	Florida National Bank	19.5	15.7
2	Sovran Bank NA	24.7	23.4
3	Chase Lincoln First Bank NA	26.3	31.6
4	NCNB National Bank of Florida	26.8	35.9
5	Bank of Virginia	27.6	29.5

Aggregate Data: Business Lending at Top 100 Banks

(Dollar Amounts in Billions)

	1984[1]
Total business loans outstanding	$367.4
Growth in business loans outstanding Top 100	+ 8.5%
Total business loans booked domestically	$230.5
Gross interest income on business loans booked domestically	$28.1
Gross return on domestic business lending	12.2%
Total loans outstanding	$810.2
Gross interest income on all loans	$121.1
Gross return on all loans	14.9%
Ratio of domestic business loans:to total loans	28.4%
Ratio of domestic business interest:to total interest	23.2%
Ratio of total business loans:to total loans	45.3%

[1]—All loan data for top 100 banks are as of December 31. Interest income data are for the entire year.

Aggregate Data: Business Lending at All Banks

(Dollar Amounts in Billions)

	1984[1]
Total business loans outstanding	$476.8
Total loans outstanding	$1,463.7
Ratio of total business loans:to total loans	32.6%
Ratio of Top 100 banks' business loans:to all banks	77.1%
Ratio of Top 100 banks' total loans:to all banks	55.4%

[1]— Source of all bank data is the Federal Reserve Board Bulletin. The data are from the last Wednesday of month series. December 1984 data for all commercial banking institutions were used. All commercial banking institutions include insured domestically chartered commercial banks, the branches and agencies of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations.

Top Commercial Lenders Feel Effects of Soft Foreign Demand

Continued from Page 1

port of income for 1984. The report-of-condition data include outstanding business loans to both U.S. and foreign businesses and are consolidated to include loans booked in a bank's domestic and foreign offices. Lease financing receivables are excluded. For detailed definitions of the data used, see the "Guide to the Data," which accompanies the listing of the top 100 banks.

A change in a report-of-condition loan classification last year may have resulted in an incomparability of data from 1983 to 1984 for some banks. "Loans to financial institutions" was changed to "loans to depository institutions." As a result, some banks may have included loans to finance companies and loans to mortgage companies in business loans. Previously, these loans were included in the old loans to financial institutions category.

Some bank analysts say that the federal regulatory instructions are unclear as to the classification of these loans. However, an *American Banker* reading of the regulatory report instructions indicates that the intent was to include loans to finance companies and mortgage companies in "all other loans."

First Interstate Bank of California, Los Angeles, questioned the validity of their reported 37.7% increase in business loans. The bank said that the commercial and industrial loan data for 1983 and 1984 are not comparable, because of the reclassification of loans to financial institutions.

According to a spokesman for First Interstate, the "true" increase in business loans for 1984 amounted to only between 6% and 8%.

Based on the First Interstate response and the sharp upward movement of business loans for certain banks, some of the growth in business lending shown in the listing today may reflect the banks' confused interpretation of the federal regulatory reporting instructions.

Total business loans at the top 100 banks were $367.4 billion, up 8.5% from $338.5 billion for the same banks a year earlier. However, for the top 25 banks in the listing, total business loans totaled $275.1 billion at yearend, up only 1.4% from $271.4 billion a year earlier. For the remaining 75 banks in the top 100, business loans totaled $92.3 billion on Dec. 31, up $25.2 billion, or 37.6%, from $67.1 billion for these same banks a year earlier.

Loans acquired through mergers accounted for approximately 16% of the growth in business loans at the smaller banks. Nevertheless, after adjusting the data for mergers, business loans were up about 30% for the smaller banks in the top 100 last year.

One of the reasons for the poorer growth performance of the large banks is that many of them are foreign-business oriented. As a result, they were affected more than the smaller banks by the weakness in many industrial sectors of the worldwide economy last year.

Among the top 100 banks in lending, 19 registered declines in business lending last year. Of that 19, 12 were ranked among the top 25, and six of these were among the top 10, including the nation's three largest bank lenders to business — Citibank, Chase Manhattan Bank, and Bank of America.

Citibank, which booked 68% of its business loans through its foreign offices, had a 6.2% drop in business lending.

Chase Manhattan, which booked almost 75% of its business loans through foreign offices, had a 3.3% drop.

Bank of America's business loans fell 0.05%. About 60% of its loans were from its foreign offices.

Among the top 25 banks, five had more than 50% of their business loans booked abroad, and another four banks had more than 40% of their loans booked offshore. Five of those nine banks posted declines in lending.

In addition to the foreign orientation of the larger banks, several — especially Continental Illinois National Bank and Trust Co. and Crocker National Bank — continued to have trouble with their business loan portfolios and experienced sizable declines in lending, further reducing the growth among the top 25 banks.

Continental Illinois, the subsidiary bank of the Continental Illinois Corp., had a 15.8% drop in its business loans, to $16.5 billion, which knocked it back one place in rank to No. 6. The decline

➡ Survey: Page 26

Dear Reader, How Are We Doing?

The American Banker wants very much to make sure its statistical listings for the financial services industry meet your information needs. So would you spend a moment to give us some feedback on the **Commercial Bank Lending** survey that appears in today's edition? Please return this questionnaire to L. Michael Cacace, Statistical Chief, American Banker, One State Street Plaza, New York, N.Y. 10004 (212) 943-4836.

(1.) How would you **change** the tabulation to make it more useful? What would you add?

_____

_____

(2.) What do you like **best** about this tabulation?

_____

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(3.) What do you like **least** about this tabulation?

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(4.) **How** do you use this information in your work?

_____

_____

(5.) What **new** statistical survey would you like to see?

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Name (optional)_____

Title_____

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Help your loan clients avoid bankruptcy if you can— and protect your interests if you can't

Business Workouts Manual

Donald Lee Rome

This unique master reference shows you how to plan and implement business reorganizations that best serve *your* interests and allow you to approach realization of expectations. The product of a cooperative effort by *five* of the nation's top authorities, the *Business Workouts Manual* leads you through every stage of the process and explains the complex relationship between the financial, business, legal and accounting aspects of successful workouts. With over 720 pages, it details how to accurately analyze the debtor's situation...develop optimal plans for the short *and* long term...negotiate effectively... handle the problems posed by third parties...help your clients avoid bankruptcy if at all possible...and much *more!* Includes *dozens* of working aids, checklists and model agreements; ensures that you're fully-prepared for *all* eventualities.

Consumer Bankruptcy Manual

Arnold B. Cohen
Mitchell W. Miller

Fully up-to-date with the 1984 Amendments to the Bankruptcy Code, *Consumer Bankruptcy Manual* takes a focused look at Chapters 7 and 13 and shows you how to come out on top in consumer bankruptcy proceedings. The authors provide action-oriented answers to critical questions like:

- How can creditors best use their new right to request modification of a confirmed Chapter 13 plan?
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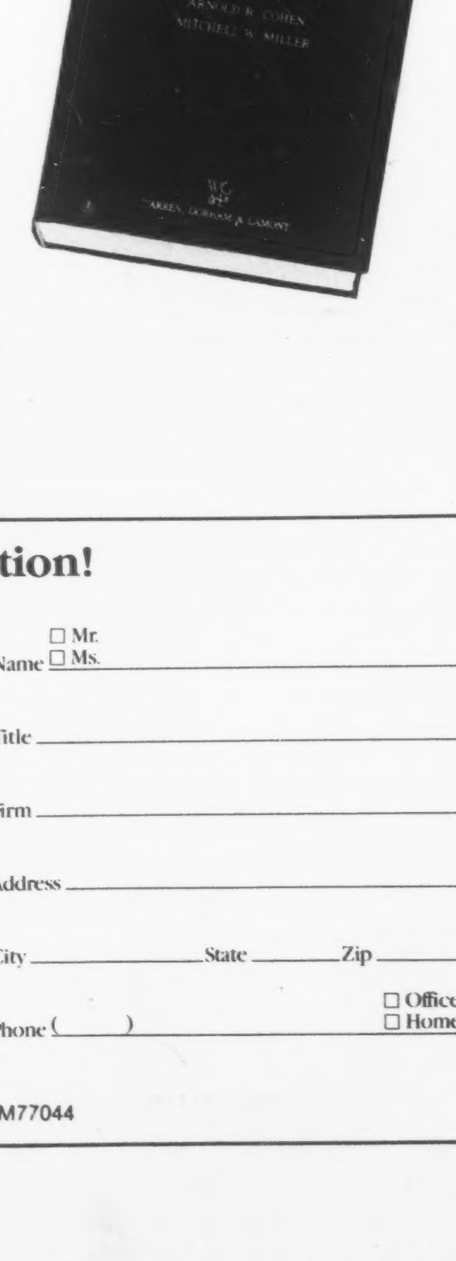
- When may you collect on guarantees provided by a debtor's friends or relatives?
- What possible counter-moves can a mortgage or automobile lender make when a debtor files for bankruptcy?



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Major Revisions Noted in Survey

This year's *American Banker* survey of the top banks in lending to business has been revised substantially to reflect the 1984 changes in the federal regulatory report of condition, or RC, and report of income, or RI, which collectively are referred to as the "call report."

The major change occurred in the report of income. For the first time, banks were required to break down — for their domestic offices only — gross interest income by type of lending. This revision made the loan schedule of the balance sheet (Schedule RC-C) directly comparable to the gross interest income portion of the income statement.

This change enables the user to compute a gross return on domestic business lending — by dividing gross interest income on domestic loans by outstanding domestic loans — and to measure the contribution of gross interest income from domestic business lending to total gross interest from all forms of lending.

□□□

A gross return using average domestic business loans for the year would provide the best measure of gross return, but banks are not required to report this number to federal regulators. On Schedule RC-K of the call report, banks report quarterly average numbers for total commercial and industrial loans (business loans) only.

Therefore, the calculation of the gross return on domestic lending as computed by *American Banker* from the call report data may be distorted and misleading for some banks. The banks most affected are those involved in mergers, since sizable movements in their loan portfolios usually accompany these mergers, and the difference between average balances and outstanding balances tend to vary the most.

□□□

For example, last year the BancOhio Corp., Columbus, was acquired by National City Corp., Cleveland. On Dec. 1, National City Bank, Cleveland, acquired 18 branches of BancOhio National Bank, Columbus. BancOhio National sold off several additional branches to other banks as a condition for the merger. As a result of these transactions, BancOhio's year-end business loan portfolio was substantially lower than its average loan portfolio for the year. The bank, which ranks 78th in business lending with $899.7 million in loans on Dec. 31, had a calculated gross return on domestic loans of 19.82%. Since almost all of its business loans were booked domestically, data from Schedule RC-K can be used. The use of these data reduces the gross return to approximately 15%.

Another distortion in the gross return attributable to merger is found in the data for MBank Houston NA. On Oct. 11, 1984, Capital Bank NA, Houston, acquired the Bank of the Southwest Houston NA and changed its name. As a result, MBank's year-end 1984 outstanding business loans soared 233% last year, to $1.1 billion, and the bank moved up 98 places in rank, to 62d place. In this case, average loans outstanding were substantially smaller than the yearend outstandings, and MBank's gross return was calculated as 6.26%.

In the listing of the top 100 banks, *American Banker* has placed a footnote "(M)" next to the names of the banks involved in sizable merger activity last year. Caution should be used in interpreting the gross return on domestic lending numbers for these banks.

Survey . . .

Continued from Page 25

was the second largest among the top 100 lenders last year. Total loans fell almost 20% over the year to $24.1 billion.

According to the corporation's annual report, "The decline in [total] loan volume resulted principally from the first-quarter sale of the bank's charge card portfolio and the third-quarter sale of loans to the Federal Deposit Insurance Corp."

Crocker National Bank's business loans declined 7.9% to $4.95 billion, and the bank fell two places in rank to 16th. Total loans fell by only 2.4%, to $15.6 billion. Crocker is a subsidiary of the Crocker National Corp., of which the London-based Midland Bank PLC owns 57%.

Crocker has experienced poor loan performance in the real estate, agricultural, and business sectors over the last two years. According to the corporation's annual report, nonperforming commercial loans rose 9.5%, to $345 million, last year, after increasing almost 29% in 1983, to $315 million.

If Continental Illinois and Crocker are excluded from the aggregate totals for the top 25 banks, the growth rate in business loans more than doubles to 2.9%.

Other Survey Findings

A summary of the major survey findings is presented below.

• Citibank remains the nation's largest bank in lending to business, with $37 billion in business loans at yearend 1984, down 6.2% from the year before. Citibank has ranked as the top bank in lending for business since the *American Banker* began its surveys on business lending four years ago.

• Manufacturers Hanover Trust Co. is the top bank in domestically booked business loans, with $13.7 billion on Dec. 31, 1984. Overall, Manufacturers Hanover ranks fourth, with a $23.7 billion business loan portfolio.

• Domestically, Bank of America was

➡ Survey: Page 27

Arrangements have been made through the undersigned for the private placement of these securities with certain institutional investors outside of the United States. These securities have not been and are not being offered for sale to the public. This announcement appears only as a matter of record.

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New Issue / June 20, 1985

$100,000,000

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Thomson McKinnon Securities Inc.

First of Michigan Corporation

The Markets

Money Market

Thursday, June 20, 1985

Federal funds range 7⅛-7 15/16%
Prime rate (6/18/85) 9½-10%*
Discount rate FRB of New York (5/17/85) 7½%
Call Loans on Securities:
To brokers on stock exchange collateral 8%
To dealers on U.S. Gov't Securities ..... N.A.

Bankers Accepts. offering rate—discount basis (6/20/85)

30 days—7.10	60 days—7.15	90 days—7.20
120 days—7.25	180 days—7.20	

NY. City Banks' CDs — Highest Offering Rate (6/20/85)

14 days—6.65	30 days—6.70	60 days—6.80
90 days—6.85	120 days—6.90	150 days—6.95
180 days—7.10	270 days—7.20	360 days—7.35

Aaa Dealer Comm'l paper—discount basis (6/20/85)

30 days—6.95	60 days—6.95	90 days—6.95

Comm'l Paper Directly Placed—Range disc. Basis (6/20/85)

5-14 days—6-7.05	15-29 days—6-7.05
30-59 days—6-7.05	60-89 days—6-7.05
90-179 days—6-7.05	180-270 days—6-7.10

Eurodollar Deposits—London bid (6/20/85)

Overnight—7 5/16	7 days—7 3/16
1 mo.—7 5/16	3 mos.—7 7/16
6 mos.—7¾	1 year—8 1/16

NIBOR (6-month) 7⅞%
LIBOR (6-month) 7 13/16%

* Of the top 25 banks in the nation:
All money center banks and 5 regional banks are at 9½%.
9 regional banks are at 10%.

Futures Markets

The Bond Buyer Municipal Bond Index

	June 20, 1985	June 19, 1985	June 13, 1985
Index	88-10	88-13	88-13
Yield	9.57%	9.56%	9.56%

The Bond Buyer Municipal Bond Index was designed by the Chicago Board of Trade to serve as the basis for trading Long-Term Municipal Bond futures contracts when approved by the Commodity Futures Trading Commission. The Index represents an average of the figures obtained when the price of each of 40 select term bonds is divided by a figure derived from the amount at which the bond would be priced to yield 8%. In all computations, the maturity of a bond is represented by its first call at par. The Index is computed daily and is quoted in points and 32nds.

3-Month Domestic CD Futures (IMM)*

Delivery Month	High	Low	Settle	Change (a)	Yield(b)
June '85	92.73	92.64	92.70	- 7	7.30
Sept '85	92.48	92.29	92.33	-15	7.67
Dec. '85	92.03	91.83	91.87	-14	8.13
Mar. '86	.....	91.46	91.45	-13	8.55
June '86	.....	.....	91.10	-12	8.90
Sept '86	.....	.....	90.80	-11	9.20
Dec. '86	.....	.....	90.52	- 9	9.48

As of the previous day's close; Total no. of contracts traded: 285; total open interest: 3,565 and change in open interest: -3.

3-Month T-Bill Futures (IMM)**

Delivery Month	High	Low	Settle	Change (a)	Yield(b)
Sept. '85	93.08	92.89	92.94	-12	7.06
Dec. '85	92.71	92.54	92.59	-11	7.41
Mar. '86	92.35	92.22	92.25	-11	7.75
June '86	92.04	91.91	91.95	-10	8.05
Sept. '86	91.79	91.67	91.69	-11	8.31
Dec. '86	91.50	91.42	91.45	-11	8.55
Mar. '87	91.29	91.23	91.23	-11	8.77
June '87	.....	91.04	91.04	-11	8.96

As of the previous day's close; Total no. of contracts traded: 10,054; total open interest: 34,105 and change in open interest: +1,031.

Footnotes to Futures Tables

*—For 90-day or 3-month domestic certificates of deposit having a face value at maturity of $1 million.
**—For three month U.S. Treasury Bills having a face value at maturity of $1 million.
a—Change from previous day's settlement price in basis points.
b—100.00 minus settlement price.
IMM—Traded on the International Monetary Market, a division of the Chicago Mercantile Exchange.
r—New record high in open interest.

American Banker Index

Selected Money Center Bank Stocks*

			High	Low	Last
June 20	298.0	1985	311.5	242.7	298.0
June 19	299.3	1984	269.6	178.4	246.3
June 18	298.5	1983	299.6	223.1	260.2
June 17	296.9	1982	268.2	168.7	233.2
June 14	297.5	1981	186.0	138.0	184.2

* Based on midday prices.

Gold Coins

Coin Name & Weight	$ Value per Coin June 20	June 19
Krugerrand (1 Troy oz.)	329.00	334.75
Maple Leaf (1 Troy oz.)	333.00	338.75
Mexican Peso (1 Troy oz.)	329.00	334.75
Chinese Panda (1 Troy oz.)	346.00	351.75
U.S. Armstrong (1 Troy oz.)	328.00	333.75
Mexican 50 Peso (1.2 Troy oz.)	398.00	403.00
Austrian 100 Corona (.98 Troy oz.)	299.75	305.00
Mexican 20 Peso (.48 Troy oz.)	159.00	162.00
S. Afr. ½ Rand (.50 Troy oz.)	164.75	168.00
U.S. Wright (.50 Troy oz.)	164.00	166.75
Austrian 1 Ducat (.11 Troy oz.)	36.00	38.75

These quotes represent the N.Y fixing price, which are a midprice between what buyers are bidding and sellers are asking. The prices are quoted by Deak Perera, but may vary among dealers, depending on market conditions.

Read FUTURES
by John Morris every Monday in
American Banker

Weaker Demand Is Seen for Banks' Commercial Loans

Continued from Page 1

growth rate, it may very well be that a weakening in demand for loans may not be the only factor behind the slowdown. Another important component is the competition that banks are continually facing from other financing sources.

Cash Flow Diminished

"Corporate loan demand may even go up slightly [this year]," said Sung Won Sohn, senior vice president and chief economist at Norwest Bank Minneapolis. "Because of sluggish economic activity, corporate profits are rising at a slower rate, so cash flow is diminished." But the second part of that issue is what portion of that credit demand will go to banks?

There are, Dr. Sohn said, "very attractive opportunities for refinancing in other markets." Specifically, he pointed to the corporate bond market, which has rallied tremendously over the last few months. There is the strong possibility for balance-sheet restructuring as corporate treasurers go to the bond market to raise money and pay down existing bank lines, Dr. Sohn added.

Richard Nelson, vice president and economist at Chemical Bank, agrees that a considerable portion of the growth in loans and commercial paper activity has been to finance acquisitions. "The underlying [credit demand] trends have been relatively weak compared to other business cycles," he said.

Mr. Nelson said that in 1984 the growth rate for commercial loans was just under 9%. He described the first quarter of this year as weak, and he said that in April, loan demand grew at a rate of 9%. He expects 1985 business loan demand to be a little over 9%.

The strongest growth in commercial credit demand last year, Mr. Nelson said, was seen at the largest money center banks, which profited from the high level of leveraged buyout and merger activity. The weakest loan growth rate was seen at the smallest banks.

This year, however, there is very weak loan demand at the New York City banks, which have had a decline in the growth rate, while small banks remain weak, with a growth rate of about 1%. Regional banks, however, are showing pretty good commercial credit growth of about 13% so far this year. The largest banks, he added, continue to be hurt by the booming commercial paper market, which competes for the nation's largest and most creditworthy corporations. Loan activity at small banks meanwhile seems to reflect the effects of the economy, Mr. Nelson said.

Predicting a Stronger Credit Demand

Still, this weakened demand for credit may be a temporary phenomenon. Thomas D. Thomson, senior vice president and chief economist at Crocker National Bank in San Francisco, sees this weak performance as short-lived. "The next three months will not be an exciting time for bankers," he said. "Late in the year, or in 1986, the economy will pick up, and so will loan demand."

Lower interest rates should help to promote a sustained housing recovery, which in turn will buoy the economy, Mr. Thomson said. He sees some weakening in the U.S. dollar, a subsequent reduction in the trade deficit, and, additionally, he expects strong employment gains and consumer spending to help stimulate economic growth.

Commercial credit demands, meanwhile, will be reflective of the business environment in different regions of the country. Mr. Thomson pointed out that loan growth in the industrial heartland of the country will be weak, while the Sun Belt and California will do somewhat better.

Other economists pointed out that certain industry segments, such as defense and computers/high technology, will probably continue to have borrowing needs despite the general sluggish state of the economy. Corporations that do borrow will use the funds primarily for modernization, particularly in an effort to be more cost competitive with overseas businesses. And merger and acquisition activity will continue, although probably not at a very exciting pace.

But at least in the near term, Mr. Thomson said, he doesn't see anything to be particularly jubilant about. ■

Survey . . .

Continued from Page 26

second to Manufacturers Hanover, with $12.4 billion in business loans. Overall, Bank of America ranked third, with $30.5 billion in business loans at yearend.

• For the top 100 banks, gross interest income on domestically booked business loans was $28.1 billion in 1984, accounting for 23.2% of the $121.1 billion in gross interest income earned by the top 100 lenders last year from all forms of lending and from investments. Domestic business loans totaled $230.5 billion for the top 100 banks, accounting for 28.4% of their total loan portfolio.

• The average gross return on domestic business lending for the top 100 was 12.2% last year. The average gross return on total loans was 14.9%.

The gross returns were computed by dividing gross interest income for the year by the yearend outstanding loan balances at the banks. In aggregate, this produces a fairly good measure of gross return. However, for some banks — especially those engaged in sizable merger activity last year — the use of yearend balances produces a distortion in the gross return calculation. For more details, see the story on page 26 describing the major change in federal regulatory data. ■

2 California Firms Sign Letter of Intent to Merge

West Coast Bureau

SAN JOSE, Calif. — Pacific Western Bancshares and Business Bancorp, both based here, have signed a letter of intent to merge.

Pacific Western, parent of Pacific Valley Bank, said it plans to pay $11.5 million of its common stock, subject to certain adjustments, to acquire Business Bancorp, whose principal subsidiary is California Business Bank.

Pacific Western said it intends to combine the operation of California Business Bank into Pacific Valley Bank, which has nine offices and assets of more than $400 million. California Business Bank, which began operating in 1982, has one office and assets of $72 million.

The merger is subject to the execution of a definitive agreement and shareholder and regulatory approval. ■

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Random Thoughts

By SANFORD ROSE

Big banks are stepping up their efforts to package and sell commercial and industrial loans to all manner of buyers. What are some of the reasons for this activity?

It seems clear that many big banks no longer have the capacity to profitably fund high-quality credits. The reason is that bank credit ratings have themselves been downgraded. A decade ago, large banks could fund even an AA industrial credit at a positive carry. Today this is far less possible.

So the next-best step is to book the credit and almost simultaneously pass it along (sometimes even presell it) to an institution whose credit rating still allows it to fund that loan on reasonably lucrative terms, if such an institution can be found.

There is an element of disturbing irony in such a development. Why have bank credit ratings been downgraded? Obviously, as quality borrowers increasingly turned to the public credit markets, banks were forced to move to lesser and often riskier names in order to build asset

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The Illusory World of Guarantees: Good Can Look Bad, and Bad Good

By LYNN BRENNER

Second of Four Parts

NEW YORK — The nation's biggest financial firms have a hot new product — their own credit ratings. They're in the credit enhancement business, selling their AAA ratings to less favorably perceived entities.

"But what makes these financial guarantors so smart that they can evaluate a risk better than the market can?" asks a Wall Street skeptic.

The same question is being asked by many less cynical observers, among them insurers and bankers eager to participate in the profits of the booming financial guarantee business.

Often, what makes a guarantor so willing to upgrade lower credit with his own is something the market doesn't know about: an unpublicized collateral or recourse agreement that has minimized or eliminated his real risk.

Buyers of these custom-made guarantees aren't trying to shift risk to a guarantor. Their real objective is to enhance the appearance of a transaction. For instance, the guarantor's presence may conceal the participation of a party that doesn't want to appear in the transaction, but in reality will assume the risk, says Kenneth Hall, senior vice president of the Ambac Indemnity Corp.

"Most commercial paper guarantees

➳ Guarantees: Page 27

Regional Banks Outperform Bigger Rivals

Impact of Nonperforming Loans, De-Leveraging Cited by Survey

By L. MICHAEL CACACE

NEW YORK — Regional banks outperformed money center banks last year in terms of returns on assets and equity. In addition, the marketplace continued to look with greater favor on regional banks than on money center banks.

The regional banks' better overall performance is attributable to two major factors. First, nonperforming loans had a greater impact on the net interest earnings of the money center banks

Performance Tables on Page 24, 26

than on regional banks. Second, a greater amount of de-leveraging was required at the money center banks than at the regional banks to meet the regulators' capital adequacy requirements.

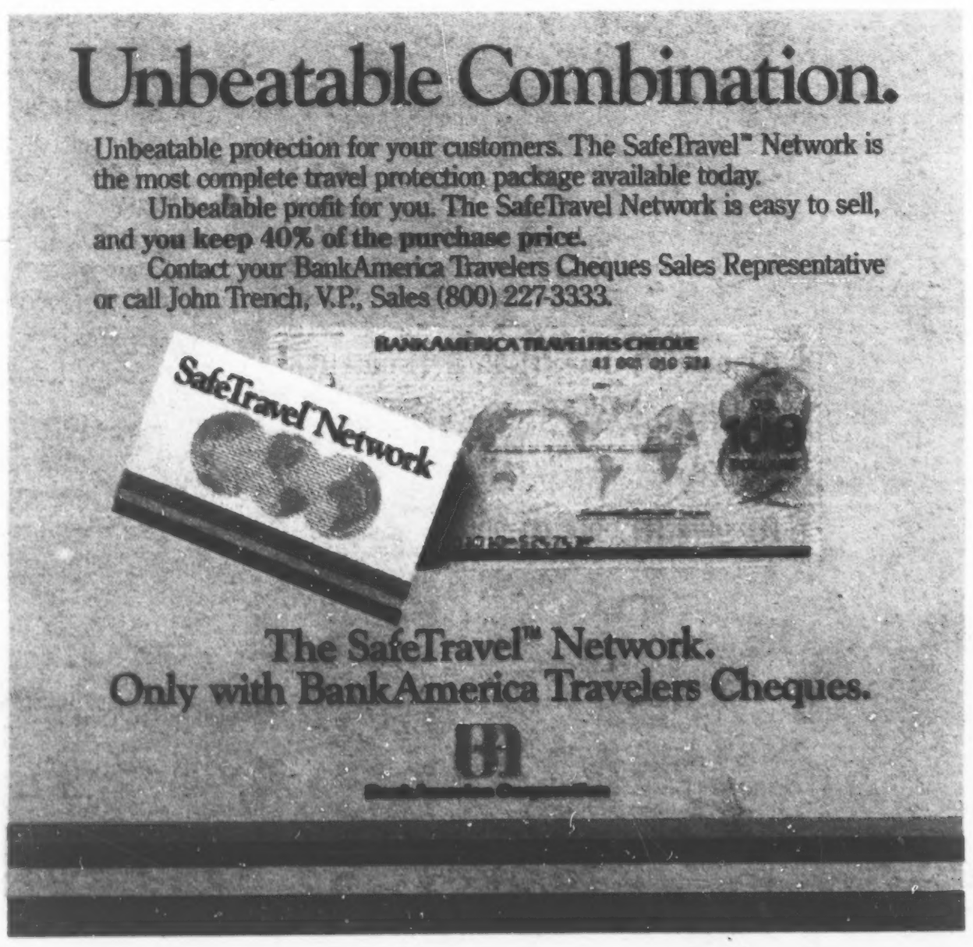
These are some of the findings of the *American Banker's* annual survey of the performance of the nation's large bank holding companies, being published today.

The survey is based on data supplied by Cates Consulting Analysts, New York.

➳ Performance: Page 25

Money Center Banks Top 5 in R.O.A.for 1984

1. Republic New York Corp.	0.91
2. J.P. Morgan & Co., Inc.	0.87
3. Bank of Boston Corp.	0.79
4. Bankers Trust New York Corp.	0.71
5. Chemical New York Corp.	0.63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